Board of County Commissioners
Workshop Item

Date of Meeting:	December 12, 2006
Date Submitted:	December 6, 2006
To:	Honorable Chairman and Members of the Board
From:	Parwez Alam, County Administrator Vincent S. Long, Deputy County Administrator Alan Rosenzweig, Assistant County Administrator Property Tax Reform Workgroup: Ken Morris, Intergovernmental Affairs Coordinator Cristina M. Long, Management and Budget Analyst Shington Lamy, Special Projects Coordinator
Subject:	Workshop on Property Tax Reform

Statement of Issue:
This workshop item provides a comprehensive review of property tax reform alternatives that have been discussed and adopted by various key stakeholders and seeks Board approval affirming Leon County's position on property tax reform.

Background:
Throughout the 2006 legislative session, staff reported on the numerous property tax bills and proposed constitutional amendments designed to overhaul the current property tax structure. Nearly all of the property tax proposals are constitutional amendments which require voter approval during a statewide election. As the end of session grew near, the Legislature chose to delay action by directing two state agencies to conduct a study on Florida's property tax structure. The final reports are due in 2007.

As local governments across the state prepared their 2007 annual budgets, citizen organizations formed to challenge local government expenditures, property assessments, property taxes, and millage rates, giving credence to the property tax reform effort. The property tax reform efforts have no lead advocate to identify or a populous solution to fix the problems of the current property tax structure. Instead, there are many stakeholders who are studying the property tax structure and will make a litany of recommendations that could adversely affect local governments' tax base. This workshop item will identify those key stakeholders and several of the prominent reform proposals being considered for the 2008 general election ballot. As the 2007 legislative session nears, additional property tax proposals could be forthcoming. Staff will monitor these proposals and notify the Board through memorandum, *Capitol Updates*, and calls-to-action.

The balance of the background section will address several of the variables involved in the property tax reform efforts. These variables include the key stakeholders and their respective functions in property tax reform, current property tax exemptions, Save Our Homes (SOH), the role of the housing market, and expenditure limitations on local governments.

Key Stakeholders:
Throughout the past year, property tax reform has been widely debated during the 2006 legislative session as well as this past election season. Several different stakeholders have been tasked with the assignment of evaluating the current property tax structure in Florida. These stakeholders include:

- The Florida Legislature
- Governor's Property Tax Reform Committee
- Century Commission for a Sustainable Florida
- Taxation and Budget Reform Commission
- Florida Association of Counties

Each of these stakeholders are currently analyzing the tax burden and inequalities facing Florida property owners. In the upcoming year, each of these stakeholders will present their analysis and recommendations on property tax reform (Attachment #1).

Florida Legislature:
During the 2006 legislative session, the Legislature directed the Department of Revenue (DOR) to conduct a study of the state's property tax structure analyzing the impact of current homestead exemptions and homestead limitation on non-homestead properties. On November 15, 2006, DOR submitted a draft report to the Speaker of the House and Senate President (Attachment #2). The report includes an analysis on the effect of SOH on homestead and non-homestead properties, affordable housing, counties, school districts, portability, millage rates and rolled back millage rates as it relates to Truth In Millage (T.R.I.M.) Notices. The final report is due on January 2, 2007.

In addition to the DOR report, the Legislature directed the Office of Economic and Demographic Research (EDR) to prepare a report summarizing the study conducted by DOR. EDR's report will provide findings and policy options that may be available to the Legislature based on the DOR study. The EDR report must also include:

- An evaluation of the impact of SOH assessment differentials on homeowners' willingness to purchase a new home
- An evaluation of the effects of SOH on local government budget decisions
- An evaluation of the effectiveness of TRIM Notices

In the findings and policy options, EDR must take into consideration the feasibility of taxpayer compliance, the state tax system's ability to respond to interstate and international competition, uniformity, and neutrality of the tax system, stability, and reliability of the tax system, and the tax system's ability to integrate other federal, state, and local taxation. The EDR's final report must be submitted to the Governor, Senate President, House Speaker, and the Chairperson of the Taxation and Budget Reform Commission by September 1, 2007.

Property Tax Reform Committee: Created by Governor Bush

On June 21, 2006, Governor Bush issued an Executive Order establishing the Property Tax Reform Committee (Committee) to provide input on the DOR and EDR reports. The Committee was appointed by the Governor and leaders in both legislative chambers and consists of 15 members. The Committee has met throughout the state reviewing the fiscal impact of SOH, homestead exemptions, and other property tax related issues. The Committee must submit three reports to the Governor, Senate President, House Speaker, and the Chairperson on the Taxation and Budget Reform Commission. An initial report must be submitted no later than December 15, 2006, a mid-term report no later than March 1, 2007 and the final report will be completed no later than December 1, 2007. The reports will include the following:

- Consequences of current property tax exemptions and assessment differentials
- Appropriates, affordability, and economic consequences of property taxation levels in Florida
- Replacements alternatives to property taxation
- Limitations upon local government revenue and expenditures

Century Commission for Sustainable Florida:

The Century Commission for Sustainable Florida was created during the 2005 legislative session under SB 360. The Century Commission is charged with making recommendations to the Governor and Legislature regarding how they should address the impacts of population growth on the state's natural resources and public infrastructure. The Century Commission is required to submit their report on January 16, 2007. It is anticipated that the Century Commission's report will include recommendations regarding property tax reform and its relationship to Florida growth.

Taxation and Budget Reform Commission:

The Taxation and Budget Reform Commission is a constitutionally established commission consisting of 25 members appointed by the Governor, Speaker of the House, and Senate President. The Commission convenes every 20 years. The Taxation and Budget Reform Commission's responsibilities include the review of state and local governments' ability to tax and adequately fund governmental operations and capital facilities. In addition, the Taxation and Budget Reform Commission will examine the constitutional limitations on taxation and expenditures for state and local governments. The Taxation and Budget Reform Commission must submit a report, as well as propose to the Legislature any recommended statutory changes relating to the taxation or budgetary laws of the State. This report must be submitted 180 days prior to the subsequent general election, or May 7, 2008.

Florida Association of Counties:
Finally, the largest stakeholders in the property tax reform efforts are the local governments that rely on property taxes to deliver essential services. County school boards also rely on this tax base but there is the possibility that their tax base will be exempt from many of the reform efforts as was the case in many of the 2006 legislative proposals. The unique blend of urban and rural counties in Florida has divided counties on this issue. Many of the rural counties are fiscally constrained, levy the maximum ten mills, and are unable to afford additional exemptions to their tax base. Some of the larger metropolitan counties are willing to absorb additional cuts to their tax base depending on the details of the reform proposal.

County staff has been participating in the Florida Association of Counties (FAC) property tax technical advisory committee. On December 1, 2006, FAC tentatively adopted several property tax proposals during its annual legislative conference (Attachment #3). FAC tentatively adopted these proposals to allow counties more time to analyze the impact to their budgets. These priorities are reviewed in the analysis section of this workshop.

Property Tax Exemptions:
The Florida Constitution provides eligible Florida homeowners with tax exemptions on the assessed value of their property (Table #1). These exemptions include a $25,000 homestead exemption, a $500 widow/widower's exemption, additional homestead exemptions for low income seniors, a $5,000 disability exemption for ex-service members, and exemptions for eligible disabled people (Attachment #4). In 2006, voters approved two amendments to the Florida Constitution. One amendment authorizes counties, by option, to implement an additional $25,000 homestead exemption for low income seniors. The other amendment mandates an additional property tax exemption to disabled veterans.

Table #1: Leon County 2006 Property Tax Exemptions

Property Tax Exemption	# of Properties	Market Value of Property	Taxable Value of Property	Difference between Market and Taxable
Homestead	54,639	$9,878,368,923	$5,790,907,417	$4,087,461,506
Widow/Widower's	4,018	$644,809,347	$317,105,742	$327,703,605
Low Income Seniors	1,878	$241,079,971	$65,031,814	$176,048,157
Ex-Service Members	724	$142,220,488	$76,566,455	$65,654,033

Homestead Exemption:
The Florida Constitution provides for a $25,000 homestead exemption in assessed property values for all eligible Florida homeowners. According to Article VII, Section 6, of the Florida Constitution, every person who has the legal or equitable title to real estate, resides on the property as of January 1, and in good faith makes it his/her permanent home is eligible for this exemption. A Florida resident can only apply this exemption to one residential unit. In 2006, Leon County has 54,639 properties that qualify for the homestead exemption.

Widow/Widower's Exemption:
Any widow or widower that is a Florida resident is eligible for a $500 exemption. Upon remarriage, the widow/widower is no longer eligible for this exemption. In 2006, Leon County has 4,018 properties that qualify for the widow/widower exemption.

Additional Homestead Exemption for Low Income Seniors:
The Florida Constitution allows counties to pass an ordinance granting an additional $25,000 homestead exemption to low income seniors (persons 65 and older). A low income senior is defined as a person who has a total household income less than $23,463 (or $20,000 plus the adjusted cost of living since January 2001). In 2001, the Board approved an ordinance authorizing this exemption. In 2006, Leon County has 1,878 properties that qualify for this exemption.

During the 2006 election, Florida voters approved an amendment to the Florida Constitution that will allow counties to pass an ordinance authorizing an additional $25,000 exemption for low income seniors. This amendment will take effect on January 1, 2007. If the Board were to adopt the new exemption, it would cost the County $285,000 in the first year.

Service Members Exemption:
An ex-service member disabled at least 10% in war or by service connected misfortune may be eligible for up to $5,000 exemption on his/her homestead property. As of 2006, Leon County has 724 properties that qualify for this exemption.

In 2006, Florida voters approved an amendment to the Florida Constitution that will provide disabled ex-service members with an additional property tax exemption. The property tax exemption will be a percentage of the discount as equal to the percentage of veteran's permanent service-connected disability. This amendment takes effect on December 7, 2006 for the disabled veterans who meet these specified qualifications:

- 65 years of age or older
- Florida resident at the time of entering military service
- Combat-related disability
- Honorably discharged

Leon County also provides additional property tax relief for service members through the military grant program. The Leon County Board of County Commissioners unanimously adopted a grant program that provides financial assistance in the form of a grant for property taxes to eligible Leon County residents. Leon County residents who are called to active duty in direct support of a named United States military conflict or national emergency declared by the President of the United States can apply for a grant equal to that portion of their Leon County ad valorem property taxes pro-rated for the amount of time the resident served on active duty. A pro-rated $600 grant is also available to qualified Leon County active military personnel who do not own property, including renters. Qualified Leon County property owners will receive $600 or the amount of their Leon County ad valorem tax bill, whichever is greater, prorated for the time served on active duty. In 2005, Leon County had 98 service members qualify for the grant program.

Disability Exemptions:
Property tax exemptions are also available for all eligible disabled persons. For instance, a Florida resident who is blind may qualify for a $500 exemption.

Exemptions are also available for totally and permanently disable persons. Real estate used and owned as a homestead by a quadriplegic, less any portion used for commercial purposes, is exempt from taxation. Real estate used and owned as a homestead, less any portion used for commercial purposes, by a paraplegic, hemiplegic, or other totally and permanently disabled person, who must use a wheelchair for mobility or who is legally blind, is exempt from taxation. Disabled persons claiming this exemption must meet gross income limitations. Gross income includes veterans' and social security benefits. The gross income of all persons residing in the homestead for the prior year cannot exceed $14,500. However, beginning January 1, 1991, the $14,500 limitation is adjusted annually according to the cost of living index. In 2006, Leon County has 57 properties that qualify for these exemptions.

Save Our Homes:
Prior to 1992, all homestead properties were assessed annually at market value and subject to real estate market fluctuations. During the 1992 General Election, Florida voters approved the SOH amendment to the Florida Constitution that caps the annual increase in the assessed value of a homestead property to 3% or the Consumer Price Index (CPI), whichever amount is less. Therefore, the longer a homeowner resides at in his/her residence the greater the tax savings on that home.

The foremost criticism of SOH is that homeowners are unable to transfer their SOH savings to a new home. Upon the sale of a home, the property is reassessed at market value and the taxable value of the home often increases significantly. For example, if a family sells their home, the assessed value for the new purchaser would start over at the market value. The market value of that home could be $250,000, but the assessed value-because of the 3% or less cap on valuation increases-could be $123,000. At the point of sale, the following year, the market value becomes the assessed value. The new homeowner will pay property taxes on the updated assessed value of $250,000.

Florida homeowners have been voicing concern over the lack of portability with the SOH amendment. SOH portability allows Florida homeowners, with homestead exemptions, to transfer their SOH savings from one home to the next. Currently, lawmakers and policy analysts across Florida are examining the impact portability could have on local government budgets.

Housing Market:
Dramatic changes in the housing market have pushed property tax reform to the forefront as a political and public policy issue for the state. Over the past five years, the national, state, and local

housing markets have flourished with record values and sales. According to the Florida Association of Realtors, the median sales price of a home in Florida increased by 13% to $249,700 from April 2005 to April 2006. This is a 96% increase since 2001 when the median sales price of a home in Florida was $127,100. This has lead many analysts to suggest that Florida has experienced a market correction of property values. Since April 2006, the housing market in Florida has slowed yet property tax reform efforts remain a top priority of state legislators.

More recently in the Tallahassee Metropolitan Statistical Area (MSA), which includes Leon, Gadsden, and Wakulla Counties, the median sales price of a home increased by 9% to $185,000, the second highest increase in the state behind Gainesville, from September 2005 to September 2006. The increase in the median sales price of a home in the Tallahassee MSA is inconsistent with housing trends across the State. During this same time period, the median sales price of a home in Florida dropped 1% statewide. The State has also seen a significant decrease in the number of realtor sales over the past year. The number of realtor sales in Tallahassee dropped 22% from September 2005 to September 2006 while the statewide average dropped 34% (Attachment #5).

The value of homes coupled with the number of home sales in Florida has contributed to the recent property tax reform efforts by the Legislature, the Governor's Office, and grassroots organizations. The escalating value of homes has led to dramatic increases in the taxable value of homes unless the homes are protected from market conditions under SOH. SOH has resulted in taxing inequity claims between two neighbors with identical homes at the same market value. A non-homestead property's taxable value is vulnerable to market conditions while an increase in the taxable value of a homestead property is restricted each year. As previously mentioned, the longer a person resides in their homestead property, the greater the benefit they will receive under SOH due to the fact that the market growth generally exceeds the restricted value.

The sale of a homestead property is the trigger for reassessment and realigns the taxable value with the market value. Homestead owners who have long enjoyed the protection from market conditions experience a "tax shock" when they receive the tax bill on their new home. The new home is taxed at a rate closer to the market value of the home and could be a significantly higher rate than what the neighbors pay on similarly sized homes. In 2006, 91% of Leon County homestead owners did not experience "tax shock," meaning their assessed value increased by no more than 3%. The remaining 9% of homestead owners sold their homes, removing the 3% cap and triggering a reassessment at market value.

Local Government Expenditure Caps:
During the 2006 legislative session, the Legislature considered restricting local government autonomy by imposing expenditure caps. This effort was an alternative to the property tax debate because it did not require an overhaul of the property tax system. However, it could impact property taxes indirectly by limiting local government spending authority and challenge home rule powers.

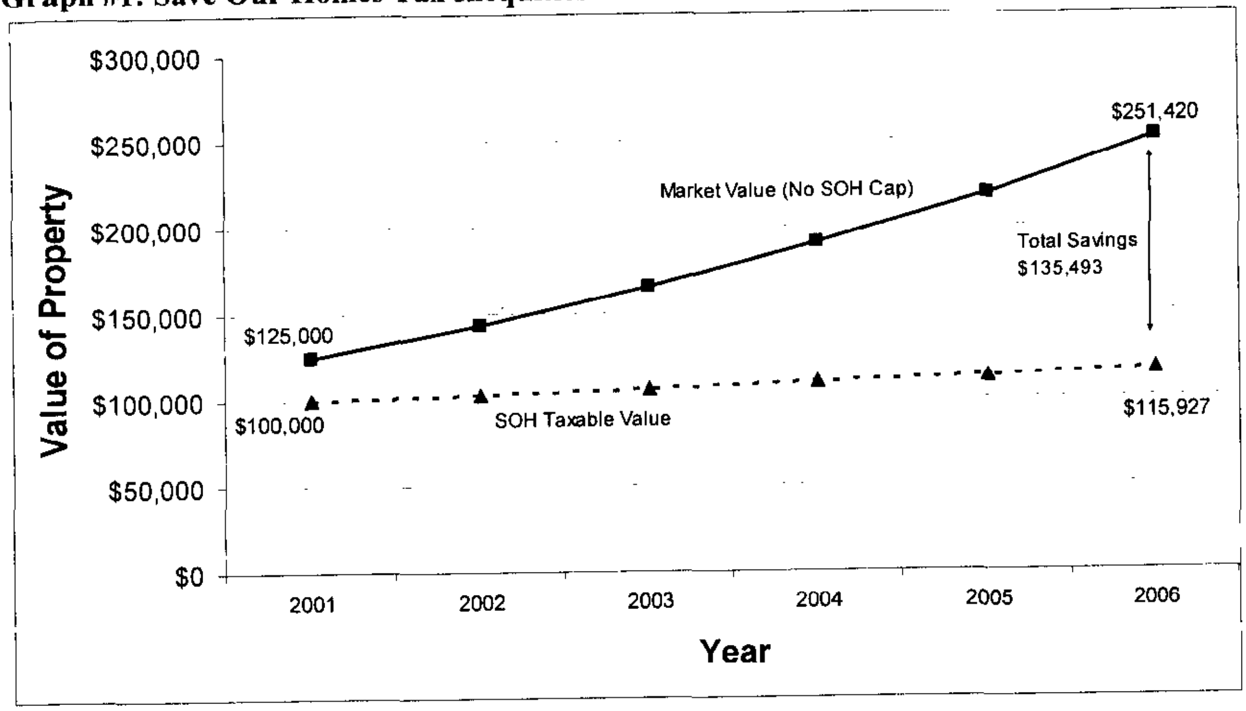
Analysis:
During the September 12, 2006 tentative hearing on the FY 07 budget, numerous citizens voiced their concerns regarding the rise in property taxes and local government spending. The Board cut spending further than originally proposed by reducing the millage rate from 8.54 to 7.99. This property tax reduction represents the most significant reduction in Leon County's recent history. The Board's action demonstrated their ability to respond to local concerns under its home rule authority by lowering the millage rate. However, the current property tax structure does not afford the County the ability to provide property tax relief to those who need it most: non-homesteaded property owners and homesteaded property owners that move.

Florida's property tax structure has flaws that derive from good intentions to reduce the tax burden on property owners and protect them from dramatic increases in the property market. Homestead and non-homestead property owners (businesses, renters, part-time residents) are treated differently under the current tax structure in terms of their property assessment and market conditions. Deeply rooted in Florida's Constitution, the homestead exemption and SOH assessment provide a large tax preference for owners of homestead property. *This has lead to a shift in the tax burden to non-homestead property owners and a severe inequity among these two property types under the current property tax structure.*

Prior to the SOH constitutional amendment in 1992, homestead properties made up 45% of the taxable value statewide. During FY 2005/06, homestead properties made up 35% of the taxable value. According to Florida Tax Watch, SOH has created a $6.8 billion tax shift from homestead property owners to non-homestead property owners. Businesses, renters, and part-time residents are compensating for the reduction of the tax burden placed on homestead property owners due to SOH assessment cap. FAC has proposed a solution to reduce this burden that will be discussed later in the analysis.

SOH is also the largest contributor to the taxing inequities among Florida homeowners with homestead exemptions. Homestead owners experience taxing inequities among neighbors with similarly priced homes. Graph #1 illustrates a homestead property purchased in 2001 for $125,000 by *Homeowner A*. The market value is $125,000 but the taxable value is $100,000 once the $25,000 homestead exemption is applied. As the value of the home increases 15% each year, illustrated by the solid line, the taxable value increases no more than 3% annually under the SOH cap. At the peak of the housing boom in 2006, *Homeowner A* is living in a $251,420 home and paying taxes on $115,927 because of the SOH assessment cap. When someone purchases the identical house right next door for the same market price, that person is assessed at the 2006 value. The result is two neighbors with identical homes paying a significant difference in property taxes each year. The Florida Constitution requires property to be reassessed upon the change of ownership, thereby; *Homeowner B* pays taxes on the 2006 market value of the property minus the homestead exemption. The taxable value for *Homeowner B* is $226,420, $110,493 more than *Homeowners A*.

Graph #1: Save Our Homes Tax Inequities



Lawmakers and the key stakeholders are examining the issue of SOH portability. SOH portability refers to the savings a homestead owner enjoys on the difference between the market value and the taxable value. In this case, Graph #1 shows a homestead exemption savings of $25,000 and SOH savings of $110,493, totaling $135,493 over a five year period. Portability would allow *Homeowner A* to carry this savings to a new home. If the new home has a market value of $500,000, the taxable value would be $339,507 after the subtraction of the $25,000 homestead exemption and the $110,493 SOH portability savings.

Local government tax bases rely on growth and property reassessment at market value to compensate for the SOH assessment caps on homestead properties. The current property tax structure exacerbates artificial values well below market value for taxation by local governments. In 2006, SOH exempted $246.3 billion statewide and $2.7 billion in Leon County from the tax base. In Leon County, 70% of all residential properties have a homestead exemption and are protected from market conditions under SOH. The exemption from taxation at market values increases the tax burden on the non-homestead property owners. This analysis carefully examines the impact of several proposals to Leon County's tax base that are being considered by the key stakeholders previously identified.

Portability of Save Our Homes:
As mentioned previously, Florida homeowners have been voicing concerns over the lack of portability of the SOH amendment. This has caused homeowners, with significant SOH savings, to

feel 'locked' in their homes due to the fact that a purchase of a new property would be taxed at market value. As a result the homeowner's tax bill would significantly increase. SOH portability allows Florida homeowners, with homestead exemptions, to transfer their SOH savings from one home to the next. FAC does not currently have a position on portability.

There are two categories of SOH portability: limited and unlimited. Limited portability restricts the amount of SOH savings a homeowner can transfer and/or the number of times a homeowner can transfer SOH savings. Unlimited portability is the exact opposite. It does not restrict the number of times a homeowner can transfer SOH savings and/or the amount of savings a homeowner can transfer to a new home, with one exception. Under limited and unlimited portability, the taxable value of the new home cannot be less than the taxable value of the previous home. For example:

- A homeowner owns a $400,000 home with a taxable value of $150,000
- The home therefore has a differential that is not taxed of $250,000
- The homeowner moves to a new home with a $200,000 market value
- The homeowner cannot transfer the $250,000 differential which would result in the property having a negative taxable value

Statewide Portability of Save Our Homes:
Proponents of SOH portability have offered different proposals that would allow homestead owners to transfer SOH savings anywhere in Florida or strictly within county boundaries. Statewide portability would not allow for an accurate forecast of property taxes which would affect the County's budget process. It would be difficult to predict how much SOH savings would move into Leon County. For instance, the average SOH savings per homestead in Monroe County is $349,636 compared to Jackson County who has an average of $14,925 per homestead (Table #2). Leon County's average SOH savings per homestead is $49,684, which is $299,952 less than Monroe County but $34,759 more than Jackson County.

Save Our Homes Reciprocity Among Counties:
An alternative to statewide portability is SOH reciprocity among counties. Under this proposal, counties have the option of entering into an agreement with a network of counties or individual counties to allow homestead property owners the ability to transfer their SOH savings between counties. Reciprocity preserves counties' home rule authority by allowing them to entering into an agreement with other counties on a case by case basis. This proposal will reduce the claims of homestead owners being "locked in" their homes by allowing them to transfer their savings anywhere among partner counties.

For instance, Table #2 shows that the Miami-Dade, Broward, and Palm Beach Counties (Miami-Dade MSA) all have a similar average of SOH savings per homestead owner. Although the transfer of SOH savings to a new homestead will prevent the new property from being assessed at market value, these three counties would not experience a significant fiscal impact by entering into a reciprocity agreement. On the other hand, Gadsden County would experience a negative fiscal impact by entering into a reciprocity agreement with Leon County, due to its significantly lower average of SOH savings per homestead owner.

Table #2: Average SOH Savings per Homestead by County

County	Average SOH Savings	Net Impact to Leon County per Homestead Owner
Leon	***$49,684***	-
Gadsden	$26,566	$23,118
Wakulla	$43,369	$6,315
Alachua	$40,412	$9,272
Manatee	$87,799	**($38,115)**
Monroe	$349,636	**($299,952)**
Jackson	$14,925	$34,759
Miami-Dade	$131,946	**($82,262)**
Broward	$122,637	**($72,954)**
Palm Beach	$137,855	**($88,172)**

In-county Portability of Save Our Homes:
In-county portability would allow homestead owners to transfer SOH savings anywhere within the county. Should a homestead owner purchase a new homestead property somewhere else in the state, the property would be reassessed at market value. In-county portability would allow for a more accurate forecast of property taxes due to the fact that the county property appraisers can track the sales of homestead properties within their respective counties.

Fiscal Impact:
Statewide, county to county reciprocity, and in-county portability would each have a negative fiscal impact on local government tax bases. The fiscal impact of SOH portability is determinate on the number of homestead owners relocating to, or relocating within, Leon County and the amount of SOH savings they have accrued.

Based on data provided by the Property Appraiser, there were 1,423 Leon County residents homesteaded property owners that sold and purchased a home in 2005. This population represents the individuals that would have benefited from in county portability. The total differential in value that could have been "ported" was approximately $41.9 million. Based on a millage of 7.99 mills this would have resulted in tax savings of $335,000; alternatively, this would have been reduced revenue to the County.

Recommendation:
Staff recommends that the Board support the local option of limited portability of Save Our Homes within county boundaries and county to county reciprocity. Staff recommends that the Board not support any form of statewide portability of the SOH assessment caps.

Save Our Homes Part II - Portability: Possible Citizen Initiative

On September 20, 2006 Ken Wilkinson, the Lee County Property Appraiser and author of the original SOH amendment, presented an initiative to Governor Bush's Property Tax Reform Committee. This initiative is essentially SOH Part II. Mr. Wilkinson has founded Save Our Homes, Inc, a non-profit corporation, that will gather the required signatures needed to get the proposal on the 2008 ballot.

Under Wilkinson's plan, SOH Part II would provide Florida homestead owners the ability to transfer a percentage of the difference between the market value of a property and its taxable value, up to a maximum of $400,000. Homestead property owners would be allowed to carry this savings to any home that they purchase in the state of Florida. This initiative does not limit the number of times that a homestead owner can transfer their SOH savings.

For example, a homestead owner who has a $400,000 home, but only pays taxes on $200,000 due to the SOH cap, would be able to transfer that 50% savings to a new home anywhere in Florida. If the person bought a $600,000 home, then, the new taxable property value would be 50% less ($300,000). In essence, the home will never return to market value unless it is purchased by a first time homestead buyer or a non-homestead buyer.

SOH Part II does not provide relief to first time homeowners or non-homestead properties. An individual purchasing a new home for the first time would pay taxes on the market value. This initiative would not resolve the tax inequities among homestead owners and would not allow for an accurate forecast of property taxes which would affect the County's budget process. In addition, this initiative further exacerbates the inequities between homestead and non-homestead.

This initiative is supported by the Florida Association of Property Appraisers. FAC does not have a position on this initiative.

Fiscal Impact:

As mentioned previously, the fiscal impact of SOH portability is determinate on the number of homestead owners relocating to, or relocating within, Leon County and the amount of SOH savings they have accrued.

Recommendation:

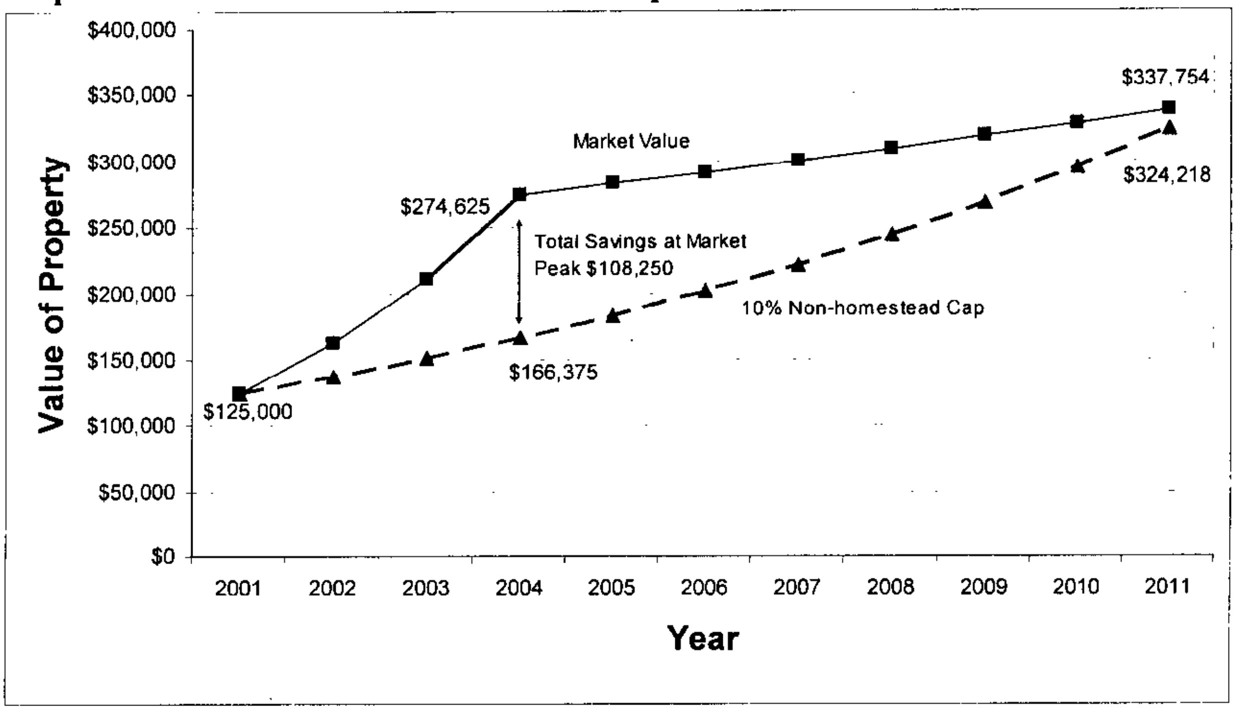
Staff recommends that the Board not support any form of statewide portability of the SOH assessment caps. Staff recommends that the Board not support the citizen initiative to allow for the transfer the Save Our Homes cap on taxable home value, up to $400,000, statewide.

Non-Homestead Assessment Caps

County staff is participating in the FAC property tax technical subcommittee. This subcommittee is under the direction of a 16 member group of county commissioners from across the state. This commissioner lead committee was appointed in November 2005 to consider solutions to property tax structure that would not have a substantial impact to county tax bases. On December 1, 2006, FAC tentatively adopted several property tax proposals during its annual legislative conference to give counties additional time to study the impact of these proposals. One of these proposals includes establishing an annual assessment limitation of 10% for non-homestead property with a revaluation upon change of ownership, similar to the SOH cap but at a higher cap.

Graph #2 illustrates a property value increase of 30% annually from 2001 to 2004, and a 3% increase each year beyond 2004 to show the effectiveness of this proposal. Under the current property tax structure, the non-homestead owner would be assessed at market value as the market sharply increases 30% each year. The 10% assessment cap protects non-homestead properties from these unforeseeable market conditions, as does SOH for homestead owners, but this proposal provides a reasonable assessment cap to allow the taxable value to catch up to the market value over time.

Graph #2: 10% Non-Homestead Assessment Cap



At the peak of the market boom in 2004, the market value of the property in Graph #2 is $274,625 and the taxable value is $166,375, a difference of $108,250. Once the market boom is over and the property values increase 3% annually, the taxable value continues to increase by 10% each year and nearly catches up to the market value by 2011. Should a change of ownership occur, the taxable value would immediately return back to the market value at anytime.

This proposal provides certainty to businesses and other non-homestead property owners because it restricts the assessment increases each year. In Leon County, the taxable value of non-homestead property rose 43.3% from 2004 to 2006. Assuming a constant millage rate during this period, non-homestead property owners would have been burdened with the entire 43.3% increase on their tax bills. However, the Board lowered the County's millage rate for FY 2007 by 0.55 mills to 7.99 mills, reducing the burden on businesses and other non-homestead property owners.

Fiscal Impact:
The impact of the proposed 10% cap effects multiple years. As reflected in graph #2, the cap in one year will most likely be brought back onto the roles of subsequent years. As a result, although there may be reduced revenue in a given year, the overall impact over several years could be minimal.

Recommendation:
Staff recommends that the Board support FAC in establishing a 10% annual assessment caps on non-homestead property.

$25,000 Exemption for Businesses on the Tangible Personal Property Tax:
Florida's state, local, and business tax burden is well below the U.S. average. At the Governor's Property Tax Reform Committee on September 20, 2006, tax research institutes presented their findings on competitiveness of Florida's tax system for businesses. These research institutes included *Florida TaxWatch* and *The Tax Foundation*. According to *Florida TaxWatch*, Florida ranked 32nd in state and local taxes per capita and 44th as a percent of personal income in 2003 (Attachment #6).

In 2005, Florida's state and local taxes on businesses ranked 15th in the nation yet the Tax Foundation's State Business Tax Climate Index ranks Florida as the fourth best tax climate in the country for taxes. *The Tax Foundation* used several economic indicators to calculate the "State Business Tax Climate Index," including major business taxes, income taxes, sales and gross receipts, unemployment insurance taxes, and property taxes. Florida ranked as the 4th best tax climate in the country among businesses (Attachment #7). Factors that contribute to an attractive business climate in Florida include:

- No personal income tax
- Relatively low unemployment insurance tax rates and a simple tax base
- Lower than average levels of property taxation

In order to enhance Florida's attractive business climate, FAC is proposing a $25,000 tangible personal property (TPP) tax exemption. The TPP tax is defined by the Florida Statutes as all goods, belongings, and other articles of value capable of manual possession and whose chief value is essential to the article itself. It is any item, other than real estate, which is used in business. For example, the TPP tax is levied on furniture, fixtures, machinery, equipment, tools, signs, leasehold improvements, household appliances, supplies, leased equipment, and any other assets used by the business. It does not include inventory, household goods, or vehicular items. Anyone owning TPP on January 1, who has a proprietorship, partnership, corporation, is a self-employed agent or a contractor, must file a TPP return to the Property Appraiser by April of each year. Property owners who lease, lend, or rent property must also file a TPP tax form.

A $25,000 exemption on TPP will directly provide tax relief to business owners, especially small business owners. The exemption is also expected reduce compliance costs, particularly for small businesses, and potentially reduce administrative costs for county property appraisers.

Fiscal Impact:
In Leon County the 2006 total taxable value of TPP is $1,058,331,637. Based on a statistical analysis by FAC, a $25,000 exemption would result in a reduction of $129,234,780 TPP taxable value, or approximately 12% of the TPP tax base in Leon County (Attachment #8). FAC estimates that 7,828 filers in Leon County would not have to file for this tax if the exemption was implemented. A TPP exemption of $25,000 would result in a revenue loss of $1.03 million to Leon County.

Recommendation:
Staff recommends that Board support FAC in establishing a $25,000 exemption for businesses on the tangible personal property tax.

Relief to Affordable Rental Housing:
During the September 12, 2006 budget hearing, non-homestead property owners addressed the Board regarding the tax burden generated by increasing market values. A concerned citizen stated that he no longer feels like a landlord, but rather a "tax collector." The market value of the concerned citizen's non-homestead property had rapidly increased over the past few years, forcing him to pass on the tax increases to his renters.

In order to provide relief to the owners of affordable rental housing, FAC proposes that the actual rental income be assessed rather than the market rental income. The proposal would authorize property appraisers to use the actual rental income for those affordable housing rental properties that certify they meet the Department of Housing and Urban Development's (HUD) fair rent standards or charge rent below fair rent standards. An agreement would have to be executed stating that the property would continue to charge rents below the HUD fair rent standards over a given period of time.

The fair market value is set by HUD in order to ensure that there is a sufficient supply of rental housing available to those individuals that are eligible and participate in HUD's housing assistance program. Fair market rent, as determined by HUD, is the gross rent estimates. It includes the shelter rent plus the cost of all utilities, with the exception of telephones. Table #2 shows Leon County's 2006 fair market rent values.

Table #2: Leon County 2006 Fair Market Rental Values

Studio	One Bedroom	Two Bedroom	Three Bedroom	Four Bedroom
$521	$579	$715	$954	$982

This proposal recognizes that affordable housing rental properties charge rents below market rental value. The market rent results in higher valuations reducing or eliminating the affordability of the rental housing. In addition, the proposal attempts to provide equity in the property tax system in regards to assessing the actual rental income of affordable rental properties.

Fiscal Impact:
Currently, a large number of Leon County affordable rental properties receive exemptions which reduce their property taxes. Therefore, the impact of this proposal would be minimal.

Recommendation:
Staff recommends that the Board support FAC in establishing property tax relief for affordable rental housing.

$25,000 Additional Homestead Exemption:
Governor-elect Charlie Crist supports doubling the $25,000 homestead exemption to $50,000 plus CPI. Any changes to the homestead exemption would require voter approval of a constitutional amendment during a statewide election. Governor-elect Crist supports giving counties the option of adopting this proposed exemption.

In 2004, there was an attempt to place a constitutional amendment on the ballot to double the homestead exemption but the Florida Supreme Court struck down the amendment language. Earlier that year, the Board approved a resolution opposing the attempt to place a constitutional amendment on the ballot to double the homestead exemption (Attachment #9). The Board also allocated $14,996 to FAC to conduct a public education campaign on the fiscal impact of doubling the homestead.

During the 2006 legislative session, there were two proposals for doubling the homestead exemption. The first proposal would double the homestead exemption over five years, or $5,000 per year. The second proposal would double the homestead exemption over ten years, or $2,500 per year. Past constitutional and legislative attempts to double the homestead exemption have not been successful, yet remain popular.

The doubling of the homestead exemption provides an additional benefit to one group of property owners who currently receive the greatest property tax relief. An increase of the homestead exemption does not address the inequities that exist among homestead owners and the inequities between homestead and non-homestead property owners, which include businesses, renters, and part-time residents.

Fiscal Impact:
A doubling of the homestead exemption would have a significant fiscal impact on the County. For instance, if Leon County increased the homestead exemption to $50,000 in FY07 the revenue loss would be $10.9 million.

Recommendation:
Staff recommends that the Board oppose the $25,000 additional homestead exemption due to its significant negative fiscal impact and its failure to address the inequities of the property tax system.

Local Government Expenditure Caps:
Local government expenditure caps are a direct challenge to the fiscal autonomy and home rule authority of charter counties. Charter governments were authorized in Florida's 1968 constitutional revision to resolve local problems without state intervention. Local government charters are approved by the electorate and confer the powers, duties, and privileges of the governing body. Expenditure caps preempt those powers by preventing local governments from exceeding the cap. Home rule power is conferred to counties by the Florida Constitution with the notion that government closest to the people is the appropriate authority to serve the needs and requirements of the community.

During the 2006 legislative session, a bill was filed to create local government expenditure caps in the Florida Constitution and authorize the Legislature to make adjustments to the caps through Florida Statutes. The expenditure cap would have penalized local governments that levy a millage rate in excess of the rolled back rate, plus the CPI, plus 3%. The rolled back rate is the millage rate that provides the same property tax revenue as the previous year, minus the cost of new construction. Under this proposed legislation, a supermajority vote of the Board would be needed to exceed the expenditure cap but the County would lose its right to the half cent sales tax revenue sharing, estimated at $11.6 million in FY07.

After years of significant cost shifts from the State to local governments, the Legislature considered imposing these caps with little recognition of the fiscal challenges endured by local governments. Over the past five years, the Legislature has shifted the following costs to county governments:

- The juvenile predisposition detention costs to counties
- Eliminated recycling grants for counties with a population over 75,000
- Increased the required county contribution to the Medicaid hospital inpatient fund
- Eliminated the Article V Trust Fund

The costs for local government services, including public safety and infrastructure, have had double digit cost increases over the past five years. Since 2000, energy prices have increased by 60%, road construction is up 31%, and construction materials have increase by 16% since 2003 (Attachment #10). County governments have been forced to fund these state cost shifts while the cost of providing services at the local level continues to increase. For instance, in Leon County property taxes supported 37% of the budget in FY97 versus 53% of the budget in FY07.

Recommendation:
Staff recommends that the Board oppose expenditure caps in order to maintain the integrity of county home rule authority to implement community based solutions to local problems.

Conclusion:
Only a few Florida counties have taken a formal position on property tax reform at this time. Palm Beach County supports unlimited statewide portability on homestead properties and limited portability for non-homestead properties but opposes an additional $25,000 homestead exemption. Similar to FAC's 10% assessment limitation on non-homestead properties, Palm Beach County supports non-homestead assessment caps between 7% and 10%.

Miami-Dade County adopted a resolution supporting an alternative assessment approach for multifamily affordable housing properties, similar to FAC's affordable housing proposal detailed herein. Miami-Dade County also adopted a resolution supporting SOH portability for "empty nesters." This proposal would allow senior citizens, 55 years of age and older, to transfer their SOH savings to smaller and less expensive homes.

Broward County voters are clearly in support of unlimited SOH portability within the county. During the 2006 general election, 77.6% of Broward County voters approved a non-binding ballot initiative supporting unlimited portability within the county.

Several of the fiscally constrained counties, including Gadsden County, have expressed the need to protect their tax base from any additional exemptions as they are at the constitutional maximum ten mills.

Unlike the counties mentioned above, staff recommends that the Board take a holistic approach to reforming Florida's property tax structure by approving all of staff's recommendations and FAC's proposals. These recommendations do not resolve the inherit flaws in the current property tax structure. However, each of the recommended proposals offer targeted tax relief to property owners to lessen the taxing inequities in the current property tax structure, while maintaining the home rule autonomy of Florida counties. As analyzed throughout this workshop, staff's recommendations are summarized below:

Recommendations:

- *Staff recommends that the Board support the local option of limited portability of Save Our Homes within county boundaries and county to county reciprocity. Staff recommends that the Board not support any form of statewide portability of the SOH assessment caps.*

- *Staff recommends that the Board not support any form of statewide portability of the SOH assessment caps. Staff recommends that the Board not support the citizen initiative to allow for the transfer the Save Our Homes cap on taxable home value, up to $400,000, statewide.*

- *Staff recommends that the Board support FAC in establishing a 10% annual assessment caps on non-homestead property.*

- *Staff recommends that Board support FAC in establishing a $25,000 exemption for businesses on the tangible personal property tax.*

- *Staff recommends that the Board support FAC in establishing property tax relief for affordable rental housing.*

- *Staff recommends that the Board oppose expenditure caps in order to maintain the integrity of county home rule authority to implement community based solutions to local problems.*

Options:

1. Accept all of staff's recommendations, all of the Florida Association of Counties property tax reform proposals, and direct the County Administrator to provide the Governor's Property Tax Reform Committee and Florida legislative leaders with the Board's recommendations on property tax reform.
2. Do not accept any of staff's recommendations or any of the Florida Association of Counties' proposals on Florida property tax reform.
3. Board Direction.

Recommendation:

Option #1

Attachments:

1. Key Stakeholders' Property Tax Reform Timeline
2. The Florida Department of Revenue's Draft Report on Florida's Property Tax Structure
3. The Florida Association of Counties' Property Tax Policy Positions, as adopted at the 2007 Legislative Conference
4. Florida Property Tax Exemption
5. *Florida Association of Realtors'* Sales Report: September 2006
6. *Florida TaxWatch*: State and Local Taxes Per Capita, FY 2003, State and Local Taxes as Percent of Personal Income, FY 2003
7. *The Tax Foundation*: State's Business tax Climate Index

8. The Florida Association of Counties Analysis on the Impact of the $25,000 Tangible Personal Property Exemption by county
9. Board Resolution No. R04-20 opposing an additional $25,000 homestead exemption to be placed on the 2004 general election ballot
10. Florida Association of Counties: County Fiscal Challenges in Recent Years